COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3806-01
BILL NO.: HB 1629
SUBJECT: Cities, Towns, and Villages; Economic Development; Taxation and Revenue
TYPE: Original
DATE: February 22, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	$0	$0	$0
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal from this year, officials from the **Department of Economic Development (DED)** stated this proposal revises criteria used to evaluate redevelopment projects funded by tax increment (TIF) financing. It also requires the DED to do a cost benefit analysis of the redevelopment plans submitted.

The DED assumed the need for one (1) Economic Development Program Administrator ($54,840) to coordinate the work associated with the cost benefit analysis and one (1) Clerk Typist IV ($25,440) to prepare documents and correspond with developers, host municipalities, and surrounding municipalities. The DED estimated there will be up to 30 local TIF projects in 120 local TIF districts each year. The DED assumed the services of an outside vendor will be utilized to conduct the cost benefit analysis work, under the guidance and coordination of the DED. The DED contacted the Midwest Research Institute in Kansas City, Missouri and they projected the charge to do the cost benefit analysis as roughly $30,000 for each analysis. Since the number of cost benefit analyses to be conducted each year will vary, the DED would submit a budget request for an estimated appropriation amount to cover the varying costs of the cost benefit analysis.

The DED would have to charge the costs to the developer so there would be some collection efforts. The DED assumed they would need to spend $15,000 for an upgrade of computer software to the REMI model to verify the cost benefit analysis work done by the vendor. The DED also assumed there would also be additional costs of $10,000 per year for data maintenance, software upgrades, software training and equipment upgrades.

Officials from the **Department of Revenue (DOR)** state this proposal limits the areas in which tax increment financing may be used. At present time the DOR is projecting no administrative impact to their agency.

In response to similar legislation from this year, the **City of Kansas City** stated the proposed changes in the TIF statutes contained in this bill have the potential of severely restricting Kansas City's ability to use TIF to accomplish their development goals. While a number of the proposed changes appear to be geographical limitations on where TIF could be applied, there are also several proposed changes which could effectively restrict the local governments ability to decide on projects and hold out the potential of having each project be forced to go through a Circuit Court review.

In response to similar legislation from this year, the **Office of State Courts Administrator** assumed this proposal will not fiscally impact their agency.

ASSUMPTION (continued)

The **City of Springfield** and the **City of Saint Louis** did not respond to our requests for fiscal impact.

Oversight assumes the Department of Economic Development can collect the contract expense from the project developers for the cost benefit analysis in the same fiscal year that the expenditure occurs. Oversight also assumes the DED will not require the additional FTE nor the computer expenses since they are expecting to contract out the cost ratio analysis evaluations.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE			
Costs - Department of Economic Development			
Contract expense for cost benefit analysis	($749,700)	($927,000)	($954,810)
Income - Recovery of contract expense for analysis from the TIF developer	$749,700	$927,000	$954,810
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
	$0	$0	$0

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses if they are in a potential tax increment financing district.

DESCRIPTION

This bill makes a number of changes to the Tax Increment Financing (TIF) laws. In its main provisions, the bill:

(1) Adds definitions of "high unemployment," "low fiscal capacity," and "poverty" to the TIF statutes;

(2) Requires redevelopment areas and municipalities to meet the following requirements:

(a) They must have a low fiscal capacity, have high unemployment, or be characterized by poverty;
(b) The assessed valuation within the proposed redevelopment area has not increased in the 3 most recent reassessments; and
(c) At least one of the indicators of business and residential property decline outlined in the bill is present;

(3) Restricts the expenditures for retail development to no more than 50% of the project's costs, unless the redevelopment is within a distressed community, a federal enterprise zone, or a federal empowerment zone; or unless at least 50% of the residents living within 1/4 mile of the proposed area are living in poverty;

(4) Requires developers to submit the proposed redevelopment plan to the governing body and to the Department of Economic Development (DED);

(5) Requires the DED to conduct a cost-benefit analysis of the impact of the proposed project, to include an assessment of fiscal impacts; net new job growth; wages associated with newly created jobs; effect on nearby land uses; impact on community cohesiveness and diversity; environmental impacts on the air, soil, and water; and sustainability of the revenue stream for affected municipalities;

(6) Authorizes the DED to charge the developer for the costs of the cost-benefit analysis, and requires DED to submit the analysis to the developer, the host municipality, and surrounding municipalities;

(7) Prohibits proposals from being approved unless the cost--benefit analysis completed by DED shows a negative impact on local taxing jurisdictions;

(8) Authorizes any affected person to file a challenge in circuit court regarding any decision of the TIF commission or the governing body within 60 days of the decision;

DESCRIPTION (continued)

(9) Limits the maximum amount of public funding for approved TIF projects to 30% of the total project costs; in some situations, including areas experiencing high levels of unemployment or poverty, the share of public funding for TIF projects may be 50% of the total project's costs;

(10) Requires the municipality and the developer to annually submit information regarding an approved project to the DED; and

(11) Requires the DED to submit an annual report regarding TIF projects in the state.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
City of Kansas City
Office of the State Courts Administrator

NOT RESPONDING: City of Springfield
City of Saint Louis

Jeanne Jarrett, CPA
Director
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